

VZCZCXRO0453
PP RUEHAG RUEHDF RUEHIK RUEHLZ
DE RUEHVI #2972 2780916
ZNR UUUUU ZZH
P 050916Z OCT 06
FM AMEMBASSY VIENNA
TO RUEHC/SECSTATE WASHDC PRIORITY 5155
INFO RULSDMK/DEPT OF TRANSPORTATION WASHDC
RUEANHA/FAA NATIONAL HQ WASHDC
RUCNMEM/EU MEMBER STATES
RUEHBS/USEU BRUSSELS
RUEHFT/AMCONSUL FRANKFURT 7864
RUEHMO/AMEMBASSY MOSCOW 2113

UNCLAS VIENNA 002972

SIPDIS

SIPDIS

STATE FOR EB/TRA AND EUR/AGS
PARIS FOR FAA (LLIU)
USEU FOR FAA (PFELDMAN)
FRANKFURT FOR TSA (ABROWN)

E.O. 12958: N/A

TAGS: [FAIR AU](#)

SUBJECT: Austrian Airlines Saved, For Now

REF: VIENNA 1907

Summary

[11.](#) Facing a worsening financial situation, Austrian Airlines Group (AUA) shareholders approved a Euro 350-400 million capital increase on October 2. Syndicated shareholders, who control 51% of AUA shares, strongly support efforts to maintain AUA's dominant position in Central, Eastern, and Southeastern Europe. AUA CEO Alfred Oetsch concurrently announced austerity measures, including the layoff of 350 employees. Oetsch rejected rumors that AUA would change from the Star Alliance to Air France-KLM's Skyteam Alliance. End Summary.

Equity Increase for AUA

[12.](#) Over the past six months, the financial problems of the Austrian Airlines (AUA) group (Austrian Airlines, Lauda Air, Austrian Arrows, Slovak Airlines) have steadily worsened. A high debt burden, an unfavorable cost structure, high fuel prices and the failure to hedge against rising fuel costs have contributed to AUA's deteriorating financial situation (ref:tel). AUA now expects a loss of Euro 80-100 million (\$100-125 million) in 2006.

[13.](#) During an October 2 meeting, general shareholders approved a Euro 350-400 million (\$438-500 million) capital increase by the end of 2006. The shareholders concurrently approved a capital reduction by cutting the face value of AUA shares from Euro 7.27 to Euro 3.00 per share. The capital reduction was necessary, because a regulation in AUA's corporate act would not allow for a capital increase at a price below the share's face value. The capital reduction will free up Euro 145 million (\$181 million) to cover losses. Following the announcement, AUA shares dropped 5% on October 3 from Euro 7.22 to Euro 6.86.

[14.](#) Syndicated shareholders hold approximately 51% of AUA shares. The syndicate includes the GoA holding company OIAG (39.7%), as well as the Raiffeisen and BAWAG banks, and the Wiener Staedtische insurance company. The GoA and Austrian industry strongly back efforts to shore up AUA's financial position. AUA, with its extensive network in Central, Eastern, and Southeastern Europe (CEE/SEE), is critical for Vienna International Airport, the numerous Austrian businesses and investors in CEE/SEE, as well as multinational firms based in Vienna.

[15.](#) During an October 3 press conference, AUA CEO Alfred Oetsch announced austerity measures, including 350 lay-offs (primarily flight attendants, but also 80 pilots). AUA will also terminate its unprofitable flights to Australia. AUA will reportedly use the fresh money to streamline its fleet.

[16.](#) Oetsch rejected rumors that AUA would change from the Star Alliance to Air France-KLM's Skyteam Alliance, citing the high costs associated with an alliance change. Air France, which holds a 1.5% stake in AUA, is reportedly interested in cooperating with AUA on destinations to CEE/SEE. Oetsch announced a strategic partnership and closer cooperation with the Russian carrier Air Union, consisting of Kras Air, Omskavia, Samara Airlines, Domodedovo Airlines and Sibaviatrans. An MoU foresees that Air Union will fly from Samara and Krasnoyarsk to Vienna via Moscow, while AUA will feed into the Air Union network via its Vienna-Moscow flights.

MCCA